2023 Michigan Taxpayer Assistance Manual

SUPPLEMENT

Introduction

This publication is a supplement to the Taxpayer Assistance Manual. This supplement is intended to be used in conjunction with the Taxpayer Assistance Manual to educate both taxpayers and tax preparers on State of Michigan Individual Income Tax matters.

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PROBLEM 1: HOMESTEAD PROPERTY TAX CREDIT - HOMEOWNER

Prepare an MI-1040CR for John and Joanna Powers ages 66 and 68, respectively. They have no dependents, nor do they qualify for any special exemptions. Their Social Security numbers (SSNs) are 111-00-1111 and 222-00-2222, respectively. They owned and lived in their house at 312 W. Outer Drive, Lansing, MI 48910, for the entire year. The property tax bills on their homestead are:

SUMMER 2023		**WINTER 2023**	
Summer Taxes	$475	Winter Taxes	$950
Special Assessment:			
Sidewalk	+ 175		
Total	650	Total	950
Administrative Fee	+ 5	Administrative Fee	+ 9
Total	655	Total	$959
State Equalized Value	55,000		
Taxable Value	$31,000		

Their annual income is:

SOCIAL SECURITY		**PENSION**	
Paid by check or direct deposit	$5,850	Gross Distributions	$11,700
Medicare premiums deducted	600	Original contributions	2,300
Total Benefits	$6,450	Taxable Benefits	$9,400

For this example, assume the Social Security is taxable on the federal return. They paid $450 in health insurance premiums to Aplac.

Assume the same facts as shown above and compute the homestead property tax credit for each of the following fact changes or answer the corresponding questions, as applicable:

A. Joanna passed away two years ago at age 66. John is currently 64, unremarried, only received Social Security payments, and **did not** pay for health insurance to Aplac.

B. Both John and Joanna are age 64. The Social Security payments received are due to Joanna being considered totally and permanently disabled.
   1) Which section of Form MI-1040CR, Part 1 will the Powers' complete?

C. The Powers' taxable benefits from their pension now equals $18,100.
   1) What is the Powers' Total Household Resources?
   2) What is the senior credit reduction rate they are subject to?

D. John and Joanna moved into their son's home on July 1, 2023, and sold their home on September 1, 2023. The son would not accept any rent from them for the remainder of the year.
   1) What amount of property taxes may the Powers claim on their MI-1040CR, Line 10?

PROBLEM 2: HOMESTEAD PROPERTY TAX CREDIT - RENTER

Susan Storm is age 49 and single. Susan has three dependents and does not qualify for any special exemptions. Her SSN is 999-00-9999. Her only income was from wages of $17,850. Susan paid no health insurance premiums, as health insurance is provided by her employer. She rented an apartment at 360 W. 18 Street, Holland, MI 49422 and paid $750 per month for the entire year. Her landlord is Bill Lux at 505 Main, Zeeland, MI 49424. Prepare her MI-1040CR.

Assume the same facts as shown above and compute the Homestead Property tax credit for each of the following fact changes or answer the corresponding questions, as applicable:

A. Susan rented an apartment at Holland City Towers for $800 per month. The apartment building pays a service fee to the Holland City Housing Commission in lieu of ad valorem property taxes.

B. Susan lived in a mobile home park and paid lot rent of $840 per month, which included $3 per month specific tax. Her wages have also increased to $64,250 for the year.

C. Susan and her sister both own and occupy a home that has a taxable value of $350,000. Is Susan eligible to claim a Homestead Property Tax Credit?

PROBLEM 3: HOMESTEAD PROPERTY TAX CREDIT - SENIOR CITIZEN WITH LARGE RENTAL COSTS

Marjorie Stone is age 82. Her SSN is 333-00-3333. She received a $6,750 pension from Toys-R-4-Everyone and $800 in interest income. Her annual Social Security statement revealed the following:

Paid by check or direct deposit	$ 6,700
Medicare premiums deducted	500
Total Benefits for 2023	$ 7,200

Marjorie paid Blue Circle Insurance premiums of $275 per quarter. She rented an apartment in the Biltmore Towers at 216 Biltmore S.E., Lansing, MI 48910, paying $625 per month for the entire year. Assume the pension is taxable on the federal return. Prepare the MI-1040CR for Marjorie.

PROBLEM 4: HOMESTEAD PROPERTY TAX CREDIT - MI-1040CR-2

John Hogan is 59 years old and single. His SSN is 444-00-4444. John received a disability pension from the Army of $7,900 for the year. John's percent of disability is25 percent. John also received wages of $50,000 for the year.

The Property Tax Bill on his homestead at 54 Rutgers, Kalamazoo, MI 49001, contains the following information:

Property Taxes	$ 1,100
Taxable Value	$21,750

Solution Note: As a General Claimant on the MI-1040CR, he would receive no Property Tax Credit (see computation below).

Property Taxes	$ 1,100
THR ($57,900) x .032	- 1,853
	$0

Compute the credit using the *MI-1040CR-2*.

A. Assume the same facts as in the example above for John Hogan, except that he rented his home paying $600 per month for the entire year. Also, assume that the combined non-homestead millage rate for Kalamazoo city and county is 59.5 mills.

Solution Note: To prepare a credit for a renter using the CR-2 method, the combined millage rate for the city and county must be obtained by the taxpayer or tax preparer. This figure may be obtained from the local Treasurer/assessor's office or by calculating it from tax bills of other taxpayers.

NOTE: Beginning in 2013, disabled veterans who own their home, filed a *State Tax Commission Affidavit for Disabled Veterans Exemption*, and received a property tax exemption are not eligible for a homestead property tax credit on the exempt property.

PROBLEM 5: HOMESTEAD PROPERTY TAX CREDIT - FAMILY INDEPENDENCE PAYMENT (FIP) / MICHIGAN DEPARTMENT OF HEALTH AND HUMAN SERVICES (MDHHS) RECIPIENT

Joan Street is 32 years old, and her minor child lives with her. She had the following household income:

Wages	$3,200
FIP/MDHHS	6,800
Total Household Resources	$10,000

Per the 2023 Friend of the Court statement, the father of Joan's child paid $2,000 of child support which is included in the $6,800 reported on the FIP/MDHHS statement. The property taxes on Joan Street's home in 2023 are $890 and the taxable value is $23,350. Joan's SSN is 666-00-6666 and her address is 1452 Dawson, Lansing, MI 48910. Prepare Joan's MI-1040CR.

PROBLEM 6: HOME HEATING CREDIT

Arthur and Millie Watson are ages 83 and 81, respectively. Arthur is deaf (cannot communicate through the spoken word) and Millie is blind (vision of 20/200 or less with corrective lenses in the better eye). They have no children or other dependents.

Their income is as follows:

- Social Security after the Medicare deduction is $680 per month.
- Pension from Ajax Manufacturing is $5,750 for the year.

The heating statements from Consumers Energy for the 12-consecutive-month period of November 1, 2022, through October 31, 2023, is $1,970. They own their home and heat it with natural gas. Prepare a Home Heating Credit for the Watsons.

Their SSNs are 888-00-8888 and 777-00-7777, and they reside in their home at 3607 Weaver, Royal Oak, MI 48073.

A. Compute the heating credit for the Watson's if they moved on January 15, 2023, to 660 W. Foster, Ferndale, MI 48221, where heat is now included in their rent.

PROBLEM 7: MICHIGAN INCOME TAX RETURN WITH INTEREST, DIVIDEND, AND CAPITAL GAIN SUBTRACTION

George Burns is age 79 (bborn in 1942) and his SSN is 555-00-5555. He lives at 456 Fire Lane, Grand Rapids, MI 49505. His filing status is single.

His income for the year is the following:

Wages – Walmark (38-9999998)	$5,800
Interest from U.S. savings bonds	1,700
Bank interest	1,500
Dividend Income	8,500
Social Security (nontaxable)	2,700

Michigan Withholding $ 260

George rents his homestead in Grand Rapids and pays $750 per month. His landlord is Gibson Management in Kalamazoo, MI 49001.

Prepare his 2023 Michigan income tax return.

Assuming the same facts as shown above, answer the questions with consideration to the following fact changes:

A. George has a roommate; they are both contracted to pay rent. Rent for the house is $900 per month.
   1) What amount may George claim for rent on his MI-1040CR, Line 11?

B. George is age 66 (born May 30, 1957).
   1) Is George eligible to claim an interest, dividend and capital gains deduction for seniors on his Michigan return?

PROBLEM 8: MICHIGAN INCOME TAX RETURN WITH PART-YEAR RESIDENTS

Norman and Patty Duke moved to Michigan from Pennsylvania on May 30, 2023, and they reside at 41692 Brunswick Lane, Lansing, MI 48910. They are ages 51 and 44 respectively, and their SSNs are 300-00-0300 and 299-00-2929. The Dukes have three children ages 9, 13, and 15. Their income for 2023 is as follows:

Norman:	Wages:	$105,000
	Ajax, Inc. (Pennsylvania wages $75,600 earned while a PA resident) (Michigan wages $29,400)	
	Michigan withholding	785
	Interest received ($175 in Michigan)	500
	Lottery winnings (MI)	$2,750
Patty:	Not employed	

The Dukes sold their home in Pennsylvania on June 13, 2023, for a gain of $5,000. The gain is not included in AGI.

The taxable value of their Michigan home is $85,000 and the taxes levied were $2,500. The school district code is 63010 and the number of days as Michigan residents is 215.

Prepare the Dukes Michigan income tax return.

PROBLEM 9: MICHIGAN INCOME TAX RETURN RETIREMENT EXAMPLES

Thomas and Mary Garcia are married, filing joint. Thomas was born in 1952 and Mary in 1955. Mary retired under provisions of a 401K retirement plan, which includes only Mary's contributions mandated by the plan to elicit an employer match and the employer contributions. Thomas receives monthly payments from his State of Michigan pension. They did not itemize their federal tax return in 2023. Thomas also received nontaxable Social Security benefits.

They have the following income for the year:

401K Distributions	$28,450
State of MI Pension	$19,500
Social Security (non-taxable)	$7,900
Bank Interest	$850

First, prepare a Michigan Income Tax Return based on the above information.

Next, use the facts above but apply the situations listed below to complete a return or answer the associated questions:

A. Assume Thomas was born in 1953 and their Social Security included in AGI is $23,900.

B. Thomas was born in 1945. He rolled over his public pension into an IRA account in 2010. No other deposits have been made to the account besides the rollover. Thomas received $13,500 in distributions for the year from his IRA.
   1) What Section of Form 4884 should Thomas complete?
   2) How much is the Garcia's retirement and pension benefit subtraction?

C. Assume Thomas was born in 1945 (Tier 1) and Mary was born in 1948 (Tier 2). Thomas died in 2019, Mary has not remarried, and they claimed a subtraction for retirement and pension benefits on a jointly filed return in 2019.
   1) Can Mary claim a Michigan Standard Deduction or a retirement and pension benefit subtraction?

PROBLEM 10: MICHIGAN INCOME TAX RETURN WITH RETIREMENT BENEFTIS FROM QUALIFIED FIRE, POLICE, OR COUNTY CORRECTIONS SERVICE RETIREMENT

Tilly Strong was born in 1962 and is a retired firefighter who was subject to the Michigan Compulsory Arbitration of Labor Disputes in the Police and Fire Department Act Her SSN is 111-00-1111. Tilly's filing status is single. Tilly receives a pension distribution from her employment as a firefighter in the amount of $25,000.

Her additional income for the year is as follows:

Bank Interest	$3,500
Dividend Income	9,800
Michigan Withholding	1,275

First, prepare a Michigan Income Tax Return based on the above information.

Next, use the facts above, but apply the situation below to answer the questions:

A. Tilly's pension distribution from her employment as a firefighter increased to $55,000. She also has an IRA distribution from her employment with Michigan 4U Financial in the amount of $49,700. She is married to Joe and files a joint return with him (his SSN is 112-00-1100). Joe was born in 1952 and he receives a retirement distribution from Everyday Motors in the amount of $65,000.

1) How much is Tilly and Joe's public pension subtraction?
2) What amount of their private pensions are they allowed to subtract?
3) What is their total retirement and pension subtraction that they will claim on their Michigan Schedule 1?

PROBLEM 11: MICHIGAN INCOME TAX RETURN RETIREMENT EXAMPLES

Arman was born in 1958 and retired from Michigan Wind Turbines+ under the terms of the retirement plan. His retirement distribution included in AGI for the tax year is $25,000. He had no other taxable income in his AGI. His SSN is 111-00-2222.

First, prepare a Michigan Income Tax Return based on the above information.

Next, use the facts above, but apply the situation below to answer the questions:

A. Arman is married to Sarah, and they file a joint return. Sarah was born in 1963 and also has a qualified retirement distribution included in AGI of $16,500.

    1) How much of a retirement and pension subtraction can Arman and Sarah take on Form 4884?

B. Arman was born in 1956, he has reached the age of 67 and files a joint return with Sarah who was born in 1963.
   Arman and Sarah's income included in AGI is as follows:

Arman's qualified retirement	$19,000
Social Security (taxable)	$9,200
Sarah's qualified retirement	$16,500

    1) If Arman and Sarah claim a retirement and pension benefit subtraction on Form 4884, which Section would they complete?
    2) What amount could Arman and Sarah claim for a retirement and pension benefits subtraction?
    3) If Arman and Sarah claimed a Michigan Standard Deduction, would they claim a Tier 2 or a Tier 3 Michigan Standard Deduction?
    4) What amount could Arman and Sarah claim for a Michigan Standard Deduction?

Problem 12: MICHIGAN INCOME TAX RETURN INDIVIDUALS BORN AFTER 1945 WHERE THE MICHIGAN STANDARD DEDUCTION IS A GREATER BENEFIT

Prepare a Michigan Income Tax Return for each set of facts below.

A. Trevor Hanes is a single filer. He was born in 1950 and has reached age 67. His SSN is 222-00-2222. Trevor receives a public pension distribution of $7,500 and earns wages from a part-time job of $21,500. Trevor has withholding of $500.

B. Trevor was born in 1955 and has reached the age of 67, his income remains the same as the previous example. He is married to Marilea who was born in 1963. Marilea receives a pension from the Michigan National Guard in the amount of $9,200. Trevor's withholding remains the same.

2023 TAXPAYER ASSISTANCE MANUAL SUPPLEMENT ANSWERS

PROBLEM 1 SOLUTION

The portion of property taxes that the Powers are able to claim on their MI-1040CR is $1,439. Special assessments are excluded from this amount. The administration fee may be claimed as long as it is 1% or less of the tax bill for that period.

The Powers' Total Household Resources (THR) is $14,800. This includes $9,400 of their pension distribution, which is their gross distribution less their original contributions. Also included is $5,850 of their Social Security benefits, Medicare premiums paid through Social Security should not be included in this amount. The Powers are allowed to deduct the health insurance premium of $450 that they paid to Aplac on line 31 of the form.

The Powers are entitled to a $965 homestead property tax credit.

Calculation:

Summer Tax	$480
Winter Tax	959
Total Property Taxes	$1,439

$14,800 THR x 3.2% = $474
$1,439 total property tax – $474 = $965 property tax credit

The Powers use Section A of the MI-1040CR to compute their credit. Since the Powers are age 65 or older, and their THR is below $21,000, they are not subject to the senior credit reduction rates and are entitled to 100% of the credit.

Problem 1A

Joanna was considered a "Senior Citizen" when she passed away. As long as John does not remarry, he is also considered a "Senior Citizen". A claimant or spouse who is 65 or older or is a paraplegic, quadriplegic, hemiplegic, blind, deaf or is totally and permanently disabled, and their THR is $6,000 or less is allowed to use a lower percentage when calculating the amount of property taxes that are not refundable (*refer to MI-1040CR Table 2 in the MI-1040 booklet)*. In this case, John's income is between $5,001 and $6,000; therefore, he would multiply his THR of $5,850 by 3% instead of 3.2%, which equals $176. Also, since his THR is below $21,000, he is entitled to 100% of the credit or the max of $1,700 and is not subject to the senior credit reduction rate. This results in John receiving a credit of $1,263 on his MI-1040CR.

Problem 1B

Since the Powers are both under the age of 65 Joanna still qualifies to use the exemption for totally and permanently disabled. Their credit would now be calculated using Section B of the

MI-1040CR and is not subject to any reduction rates.

Problem 1C

Since the Powers' taxable benefits from their pension increased, their THR is now $23,500 and leads to a reduced rate due to the senior reduction. The amount of the credit they could claim decreased from 100% to 88% due to the senior credit reduction rates (*refer MI-1040CR Table A in the MI-1040 booklet*).

Problem 1D

The Powers were part-year homeowners; therefore, their property taxes must be prorated. Part 3 of the MI-1040CR must be completed to indicate what portion of property taxes they are able to claim for the time they lived at their home. The date they moved in with their son, July 1st, should be used to calculate their portion of the property taxes eligible to be claimed. The September 1st date is not allowed since they did not occupy the home for two months prior to the sale date. They occupied their home for 182 days. The amount of taxes that are eligible to be claimed and entered on line 10 is $717.

Calculation:

182 days occupied / 365 = 49.86%
$1,439 property taxes x 49.86% = $717

PROBLEM 2 SOLUTION

Susan paid rent for 12 months at the same apartment. Her wages were not enough to result in additional phase-out limits; as such, the credit she receives on her MI-1040CR is $899.

Calculation:

> $9,000 annual rent x 23% = $2,070
> $17,850 THR x 3.2% = $571
> $2,070 property taxes included in rent – $571 = $1,499
> $1,499 x 60% (general claimant) = $899 property tax credit

Problem 2A

Since Susan lived in service fee housing for 12 months, she may claim 10% of her paid rent for property taxes. This is calculated in Part 5 of the MI-1040CR. The property taxes eligible to be claimed in this situation ($960) are entered on line 10 of the MI-1040CR; do not enter amounts on line 11 or 12 in this circumstance. This results in Susan receiving a credit of $233.

Calculation:

> Rent: $800 per month x 12 months = $9,600
> $9,600 x 10% = $960 property taxes eligible to be claimed, line 56 and line 10
> $17,850 THR x 3.2% = $571
> $960 – $571 = $389
> $389 x 60% (general claimant) = $233 property tax credit

Problem 2B

Susan lived in a mobile home park for 12 months; as such, she pays a $3 per month specific property tax that is included in her lot rent.

For Part 4, line 52, column E, the $36 (12 months x $3) has been subtracted from the total rent and instead included on line 10. Susan's rent is calculated in Part 4, line 52 at $10,044 (($840 lot rent x 12 = $10,080) – $36 property taxes) and included on line 11 of the MI-1040CR.

In addition, Susan's wages increased, subjecting her to the THR phase-out rates. In this case, Susan was only able to claim 90% of her credit, entered on line 43. This means that Susan would be receiving a $329 credit.

Calculation:

> Mobile home specific tax = $3 x 12 months = $36 property taxes, line 10
> Rent: $840 x 12 months = $10,080 – $36 taxes = $10,044 x 23% = $2,310
> Total Tax: $36 tax + $2,310 (portion of taxes included in rent) = $2,346
> THR: $64,250 x 3.2% = $2,056

$2,346 – $2,056= $290
$290 x 60% (general claimant) = $174
$174 x 40% (phase-out) = $70 property tax credit

Problem 2C

As Susan owns and occupies a home with another individual, she must divide the taxable value of the home by 2 in order to determine if her home exceeds the taxable value limit for the Homestead Property Tax Credit that year. (The taxable value of the home is divided by the number of individuals that own and occupy it.) The taxable value limit for 2023 is $154,400.

Calculation:

$350,000 / 2 = $175,000

Susan's portion of her home's taxable value is $175,000 and exceeds the limit set for the 2023 tax year. Susan may not claim a Homestead Property Tax Credit this year.

PROBLEM 3 SOLUTION

A claimant may be eligible for the Senior Citizen – Alternate Method for Renter calculation if they are over 65 and rent their home. Worksheet 5 in the MI-1040 instruction booklet should be completed to determine if this method or the regular method for calculating the Homestead Property Tax credit is more beneficial to the claimant(s).

Marjorie's credit computes as follows:

		Regular Method			Alternate Method
Rent/year		$7,500	Rent/year		$7,500
		X 0.23			
		$1,725			
THR	$13,150		THR	$13,150	
X 3.2%	X 0.032		X 40%	X 0.4	
Amount Not Refundable		- 421	Amount Not Refundable		- 5,260
Regular Method Credit		**$ 1,304**	**Alternate Method Credit**		**$ 2,240***

THR Calculation:

$ 800	Interest
6,750	Pension
6,700	Social Security
(1,100)	Health insurance premium ($275 x 4 quarters)
$13,150	THR

*Using the Alternate Method (see Worksheet 5 in the instruction booklet) allows for a $1,700 maximum credit, this should be entered on line 44.

(Another example of this calculation can be found in the Taxpayer Assistance Manual.)

PROBLEM 4 SOLUTION

John is allowed a $177 credit after phase-out reductions are applied. Keep in mind that the percent of disability (determined by the Veteran Administration) is needed in order to determine the Taxable Value Allowance (TVA) found in Table 2 in the MI-1040CR-2 instruction booklet. After looking at the table and taking into account John's percent of disability, it is found that he will have a $3,500 taxable value allowance.

Calculation:

> $3,500 TVA (from Table 2) / $21,750 TV = 16.09% refundable
> $1,100 property taxes x 16.09% = $177 property tax credit
>
> Note: If John received a Disabled Veterans Exemption on his home, the exempt property would not be eligible to claim when computing the homestead property tax credit.

Problem 4A

Veterans who rent must complete Part 2 of the MI-1040CR-2 to compute their taxable value. John's taxable value allowance (TVA) remained the same, but his taxable value of his homestead changed to $27,832 ($7,200 annual rent x 23% = $1,656 / .0595). His percent of tax relief is also reduced to 12.58% ($3,500 TVA/ $27,832). John is allowed a $208 credit ($1,656 x 12.58% = $208).

(Another example of this calculation can be found in the Taxpayer Assistance Manual.)

PROBLEM 5 SOLUTION

Joan received FIP/MDHHS benefits in 2023. She must prorate her credit to reflect the ratio of income from other sources to total household resources. Use the MI-1040CR *Worksheet 4* in the instruction booklet when computing the proration. Joan would receive a total credit of $178 for 2023.

Calculation:

> Any child support included with FIP/MDHHS income should be separately reported as child support on MI-1040CR, line 22.
>
> $6,800 FIP/MDHHS statement – $2,000 child support = $4,800 FIP/MDHHS income
>
> $10,000 x 3.2% = $320
> $890 property tax – $320 = $570
> $570 x 60% (general claimant) = $342
>
> $10,000 THR – $4,800 FIP/MDHHS = $5,200 non FIP/MDHHS income
> $5,200 / $10,000 THR = 52%
> $342 x 52% FIP/MDHHS proration = $178 property tax credit

PROBLEM 6 SOLUTION

Arthur and Millie's THR is $13,910. They are allowed four exemptions on their MI-1040CR-7, two are personal exemptions and two are for Arthur's deafness and Millie's blindness. With four exemptions, the Watsons' standard allowance from Table A is $1,156 and should be entered on line 38 of the MI-1040CR-7. It is important to take note of the income ceilings for each Standard allowance and Alternative credit when preparing the MI-1040CR-7. The Watsons' THR does not exceed the income ceiling for either the Standard credit ($33,013) or the Alternative credit method ($31,818). Since their income is below the income ceiling, their claim is for twelve months, and their heat is not included in their rent, they qualify to use either method. Both methods should be computed when a claimant(s) qualifies to use either method and the larger amount should be claimed for the credit. In this case, the Watsons would receive a larger credit by using the standard credit amount (line 40), which computes to $669, instead of the alternative credit amount (line 45), which computes to $308. The standard credit amount of $669 will give Arthur and Millie a larger credit. Please note, the credit amount for both methods is further reduced by the percentage of federal home heating assistance funds available for this year. Therefore, the credit is subject to further proration.

Problem 6A

In this scenario, Arthur and Millie moved into a new homestead where their heating costs are included in their rent. Box 10 should be checked to indicate that their heating costs are included in rent. Since the Watsons' heat is included in their rent, they are no longer eligible to use the Alternate credit method when calculating their credit on the MI-1040CR-7. The Watsons' standard allowance and THR remained the same, but now they must complete line 41 and reduce their computed standard credit by 50 percent. The Watsons' standard credit amount computes to $335. Please note, this amount is further reduced by the percentage of the federal home heating assistance funds available for this year. Therefore, the credit is subject to further proration.

PROBLEM 7 SOLUTION

George's AGI is $17,500, which includes wages, interest from U.S. saving bonds, bank interest, and dividend income. George is allowed to subtract the interest from U.S. savings bonds on the Schedule 1, line 10. Since George was born in 1942, he is allowed a subtraction for his dividend, interest, and capital gain income on Schedule 1, line 28. In 2023, the maximum deduction for a single person is $13,712; therefore, George is allowed to subtract all of his bank interest and dividend income for a total of $10,000 on Schedule 1, line 28.

George had wages and income tax was withheld from his wages. The amount withheld should be entered on the Schedule W; the total of the Schedule W should be carried to MI-1040, line 30.

A Homestead Property Tax Credit should be completed for George. He should include his wages, all interest and dividend income, and his nontaxable social security income in his Total Household Resources (THR), totaling $20,200. Part 1, Section A of the form, should be completed since George is a senior claimant. Part 4 of the form should be used to report George's rent. His THR is below $21,000 and is not subject to the senior credit reduction. George would receive the full amount of his credit, which computes to $1,424. This amount is reported on MI-1040, line 25.

On his MI-1040, George has a total tax liability of $16, a property tax credit of $1,424, and Michigan tax withholdings of $260. George is eligible for a refund of $1,668.

Calculation:

> $17,500 AGI - $11,700 Schedule 1 subtraction - $5,400 exemption allowance = $400 taxable income.
> $400 x 4.05% = $16 tax
> $1,424 property tax credit + $260 withholding -$16 tax = $1,668 refund

Problem 7A

> For the Homestead Property Tax Credit, George now has a roommate who is also contracted to pay rent. George may claim $450 a month or $5,400 for the year, not the entire $900 a month.

Problem 7B

In this scenario, George's age has changed to 66. Due to George's age, he is no longer allowed to take the deduction for dividend, interest, and capital gains income for those who are born before 1946. This means that his $10,000 of bank interest and dividend income is completely taxable, but he is still able to deduct his interest from savings bonds on Schedule 1, line 10. The amount of $1,700 should be carried from the Schedule 1 to MI-1040, line 13.

PROBLEM 8 SOLUTION

The Dukes were part-year residents; they have five personal exemptions for a total of $27,000 (which will be prorated later). Their AGI is $108,250. Included in their AGI is wages ($105,000), interest income ($500), and lottery winnings ($2,750).

Their AGI must be divided into an amount that was earned and allocated to Michigan and an amount that was earned and allocated to Pennsylvania. The Schedule NR allows the taxpayer to appropriately designate income attributable to Michigan from income attributable to Pennsylvania. After all income has been considered, Michigan income totals $32,325 and Pennsylvania income totals $75,925. The income attributable to Pennsylvania must be carried to Schedule 1*,* line 13 so that a subtraction can be made from AGI; from Schedule 1 the amount is carried to MI-1040*,* line 13.

Part-year residents must prorate their Michigan exemption allowance based on the ratio of Michigan income to total income, computed on Schedule NR. The Dukes are allowed an exemption allowance of $8,062 since they were part-year residents ($32,325 / $108,250 = 29.86% x $27,000). This amount should be entered on MI-1040*,* line 15. The proration is computed on Schedule NR.

The amount of income tax withheld from Michigan earnings is reported on the Schedule W and carried to MI-1040, line 30.

Since the Dukes lived in Michigan for at least six months, they are eligible to claim a Michigan Homestead Property Tax Credit. The property taxes must be prorated for the time that the Dukes owned and occupied their new home in Michigan. Part 3 of the MI-1040CR should be completed. The Dukes were Michigan residents for 215 days and are able to claim $1,473 of the property taxes that were levied on their home in 2023 (215/365 = 58.90% x $2,500). Also, the Dukes were part-year residents so they must annualize their THR to determine if they are subject to phase-out reductions. Their THR is $37,025 consisting of $29,400 in wages earned while a Michigan resident, the $175 interest, $5,000 gain received while a Michigan resident, and the $2,450 lottery winnings (the amount that exceeds $300). The gain from the sale of their home in Pennsylvania is included in THR because the sale and the gain occurred while the Dukes were Michigan residents.

The annualized amount would compute to $62,572 (365/215 = 1.69 x $37,025). **Please note**: the annualized THR of $62,572 does not appear anywhere on the MI-1040CR. It is only used for reference to determine if the Dukes must reduce their property tax credit under the phase-out reduction rates. Because the phase-out reductions begin with a THR of $58,301, the Dukes are subject to phase-out reduction rates. The Dukes must refer to Table B in the MI-1040 instruction booklet to determine the percentage of credit for which they are eligible. That percentage, 50%, is entered on the MI-1040CR line 43. The Dukes are eligible for a $87 property tax credit, which is carried to MI-1040, line 25.

The Dukes' total tax liability is $983, their property tax credit is $87, and their Michigan tax withheld is $785. The Dukes' MI-1040 computes to a tax due of $111.

Calculation:

\$108,250	AGI
(75,925)	Out-of-state income
(8,062)	Prorated exemption allowance
\$24,263	Taxable income
x 4.05%	Tax rate
\$ 983	Tax liability
(87)	Property tax credit
(785)	Withholding
\$ 111	Tax due

Exemption allowance

\$32,325 Michigan income / \$108,250 total income = 29.86%
5 exemptions x \$5,400 = \$27,000 x 29.86% = \$8,062

Annualized THR

365 days / 215 days in Michigan = 1.69
\$37,025 THR x 1.69 = \$62,572
\$62,572 annualized THR results in a 50% phase-out reduction (Table B)

Property tax credit

215 days occupied / 365 = 58.90%
\$2,500 property taxes x 58.90% = \$1,473

\$37,025 THR x 3.2% = \$1,185
\$1,473 property tax – \$1,185 = \$288
\$288 x 60% (general claimant) = \$173
\$173 x 50% phase-out reduction = \$87 property tax credit

PROBLEM 9 SOLUTION

Thomas was born in 1952 and Mary in 1955. The couple's AGI is $48,800, which includes the following:

401K Distributions	$28,450
Public Pension	$19,500
Bank interest	$ 850

Based on their year of birth the Garcias are eligible for the Tier 2 Michigan Standard Deduction, against all income, of up to $40,000 for a joint return.

The couple is ineligible for a dividends, interest, or capital gains deduction as they were both born after 1945. Regardless, the Garcias do not owe any tax and are not entitled to a refund this tax year.

Calculation:

$48,800 AGI– $40,000 Subtractions – $10,800 Exemption = $0 taxable income

Problem 9A

Thomas and Mary's AGI is $48,800. Thomas' pension is from the railroad which is not subject to taxation in Michigan. Thomas' entire railroad pension of $19,500 (both Tier 1 and Tier 2 Railroad Retirement benefits) should be subtracted from their taxable income on Schedule 1, line 11, even if some of the benefits were reported as Social Security benefits on the federal return.

In this scenario, the Garcias would complete the questionnaire "*Which Section of Form 4884 Should I Complete?*" in the MI-1040 instruction booklet to determine which section to complete, on Form 4884 or to claim a Michigan Standard Deduction (if eligible). After completing the questionnaire, the taxpayers are directed to complete Worksheet 2 and Worksheet 3.3 and compare the results. As Thomas was born in 1952, they are eligible to claim the Tier 2 Michigan Standard Deduction against all income or a retirement subtraction. The Tier 2 Standard Deduction is up to $40,000 for a joint return. However, the $19,500 subtraction on the Schedule 1, line 11 reduces the standard deduction. The Garcias are eligible to claim a reduced standard deduction against all income of $20,500 ($40,000-$19,500) on Schedule 1, line 24. However, after completing Worksheet 3.3 it is determined that they are eligible for a $25,884 retirement subtraction using Section D of Form 4884. The Garcias do not owe any tax and are not entitled to a refund for the tax year.

Problem 9B

Magen v. Dep't of Treasury, 299 Mich.App. 566, Docket No. 302771 (2013) may affect the tax treatment of distributions from an individual retirement account (IRA) created by a rollover of funds from another retirement plan. The published decision held that distributions from an IRA are not taxable where the entire principal in the IRA originally derived from a tax-free (public) retirement plan, now subject to the restrictions for age or year of birth. Essentially, the source of the rollover determines the eligibility for subtraction.

As Thomas was born in 1945 and has a public pension that is potentially exempt from Michigan tax, a "look through" for Thomas' funding of the IRA is required. The original pension was from the State of Michigan, making it a public pension. An IRA funded with pretax dollars is a federally taxable pension, as is a 401K rolled into an IRA. With consideration to Magen, Thomas' IRA distributions attributed to the rollover would be characterized the same as a public pension and would be exempt from tax in Michigan.

The Garcias would use the questions in "*Which Section of Form 4884 Should I Complete?"* in the MI-1040 instruction booklet to determine which section to complete, on Form 4884 or to claim a Michigan Standard Deduction (if eligible). It is determined that the couple should complete Section A of Form 4884. Thomas and Mary's AGI is $42,800. Thomas' IRA distribution of $13,500 should be entered as a public pension on Form 4884, line 12. Mary's 401K distribution of $28,450 should be entered on Form 4884, line 14. The total retirement and pension benefits subtraction calculates to $41,950.

Include with the return documentation showing the original funding source for the IRA to confirm its status as a public pension.

Problem 9C

In this scenario Thomas is now deceased. Mary is at least 67, has not remarried, and claimed a subtraction for retirement and pension benefits on a jointly filed return with Thomas in the year of his death. As a surviving spouse, Mary may claim the retirement and pension benefits subtraction that would have applied based on the earlier year of birth of the surviving spouse or the deceased spouse. Mary may now elect to claim the Tier 2 Michigan Standard Deduction, or a retirement and pension benefit subtraction based on Thomas' year of birth (subject to the limits available for a single filer); this election is made each year.

To make this determination, Mary completes the questionnaire "*Which Section of Form 4884 Should I Complete?*" in the MI-1040 instruction booklet to determine which section to complete, on Form 4884 or to claim a Michigan Standard Deduction (if eligible). Mary is directed to complete Worksheet 2 and work through Section A of Form 4884 to determine the best option for her filing situation. Mary's Tier 2 Michigan Standard Deduction for a single filer is $20,000 (. Mary's retirement and pension benefit subtraction determined by Thomas' year of birth would be larger, and she completes Form 4884 using Section A to arrive at $47,950 for a single filer.

PROBLEM 10 SOLUTION

Tilly's AGI is $38,300. She was born in 1962, single, and receiving qualified retirement benefits from service as a firefighter in Michigan. Tilly would complete the questions in "*Which Section of Form 4884 Should I Complete?"* located in the MI-1040 instruction booklet to determine which section to complete, on Form 4884. It is determined that she should complete Section A of Form 4884. Tilly's entire pension distribution from her employment in a qualified fire service are eligible to be subtracted. Tilly is entitled to a $955 refund in 2023.

Calculation:

> $38,300 AGI – $25,000 Schedule 1 subtraction (carried from Form 4884) =
> $13,300 income subject to tax
> $13,300 – $5,400 exemption allowance = $7,900 taxable income
> $7,900 x 4.05% = $320 tax liability
> $320 tax liability – $1,275 Michigan withholding = $955 refund

Problem 10A

Tilly and Joe's AGI is $183,000. Tilly and Joe would complete the questions in "*Which Section of Form 4884 Should I Complete?"* located in the MI-1040 instruction booklet to determine which section to complete, on Form 4884. It is determined that they should complete Section A of Form 4884 as Tilly is receiving qualified retirement benefits from service as a firefighter in Michigan.

Tilly and Joe's public pension benefits are $55,000 and are from Tilly's employment as a firefighter.

Tilly and Joe are allowed to subtract $68,036 of their private pension benefits. Taxpayers must reduce their private retirement and pension limit by the amount subtracted for public retirement and pension benefits. If a taxpayer's public retirement benefits exceed the maximum private retirement and pension limit for the tax year, then they would not be entitled to claim an additional subtraction for a private pension.

Calculation:

> $123,036 private pension limit for married filing joint – $55,000 Tilly's public pension benefits = $68,036 new private pension limit

Tilly and Joe have retirement distributions included in their AGI that total $169,700. They may claim a subtraction of $123,036 of their retirement benefits on their Schedule 1 ($55,000 Tilly's public retirement benefits + $68,036 of Tilly and Joe's private retirement benefits combined).

PROBLEM 11 SOLUTION

Arman AGI is $25,000. He was born in 1958 and is receiving a qualified retirement distribution. Arman completes the questions in "*Which Section of Form 4884 Should I Complete?"* located in the MI-1040 instruction booklet to determine which section to complete, on Form 4884. After completing the questionnaire Arman is directed to Section D of Form 4884. Arman is allowed to claim a retirement subtraction up to $15,380, this amount is carried to Schedule 1, Line 27.

As Arman did not have any withholding his return computes to a tax due of $171

Calculation:

> $25,000 AGI - $15,380 qualified retirement benefits = $9,620 income subject to tax
> $9,620 - $5,400 exemption allowance = $4,220 taxable income
> $4,220 x 4.05% = $171 tax liability

Problem 11A

Arman and Sarah have $41,500 in their AGI, which consists of their qualified retirement distributions. They file a married filing jointly return. Arman and Sarah complete the questions in "*Which Section of Form 4884 Should I Complete?"* located in the MI-1040 instruction booklet to determine which section to complete, on Form 4884. After completing the questionnaire, they are directed to Section D of Form 4884. They are allowed to claim a retirement subtraction up to $30,759, this amount is carried to Schedule 1, Line 27.

Problem 11B

Arman and Sarah have $44,700 in their AGI, they file a married filing jointly return. In this scenario, the Arman and Sarah would complete the questionnaire "*Which Section of Form 4884 Should I Complete?*" in the MI-1040 instruction booklet to determine which section to complete, on Form 4884 or to claim a Michigan Standard Deduction (if eligible). After completing the questionnaire, the taxpayers are directed to complete Worksheet 2 and Worksheet 3.3 and compare the results.

Worksheet 2 determines that Arman and Sarah would qualify for a Tier 3 Michigan Standard Deduction in the amount of $20,000. The Tier 3 Michigan Standard Deduction is reduced by personal and stillbirth exemptions claimed on the MI-1040, taxable Social Security benefits, military compensation (including retirement benefits), Michigan National Guard retirement benefits and railroad retirement benefits included in AGI.

Calculation:

> $40,000 (Tier 3 Michigan Standard Deduction for a joint return) - $10,800 exemption allowance - $9,200 taxable Social Security = $20,000 Tier 3 Standard Deduction.

Worksheet 3.3 determines that Arman and Sarah, if claiming a retirement subtraction, would complete Section D of Form 4884 and be allowed a subtraction of $30,759.

They receive a greater benefit if they claim a retirement subtraction on Form 4884 in the amount of $30,759 instead of a Tier 3 Michigan Standard Deduction of $20,000.

PROBLEM 12 SOLUTION

Problem 12A

Trevor's AGI is $28,500 and was born in 1950. He would complete the questionnaire "*Which Section of Form 4884 Should I Complete?*" in the MI-1040 instruction booklet to determine which section to complete, on Form 4884 or to claim a Michigan Standard Deduction (if eligible). After completing the questionnaire, the Trevor is directed to complete Worksheet 2 and Worksheet 3.3 and compare the results.

Worksheet 2 determines that Trevor may claim a Tier 2 Michigan Standard Deduction of $20,000 against all income. Worksheet 3.3 determines that Trevor may claim a retirement subtraction on Section D of Form 4884 in the amount of $7,500. The Tier 2 Michigan Standard Deduction offers Trevor the greater benefit. Trevor would receive a refund of $374.

Calculation:

> $28,500 AGI - $20,000 Tier 2 Michigan Standard Deduction = $8,500 income subject to tax
> $8,500 - $5,400 exemption allowance = $3,100 taxable income
> $3,100 x 4.05% = $126 tax liability
> $126 tax liability - $500 withholding = $374 refund

Problem 12B

Trevor and Marilea's AGI is $38,200, they file a joint Michigan return. Trevor and Marilea complete the questionnaire "*Which Section of Form 4884 Should I Complete?*" in the MI-1040 instruction booklet to determine which section to complete, on Form 4884 or to claim a Michigan Standard Deduction (if eligible). After completing the questionnaire, they are directed to complete Worksheet 2 and Worksheet 3.3 and compare the results.

Worksheet 2 determines that Trevor and Marilea would qualify for a Tier 3 Michigan Standard Deduction in the amount of $20,000. The Tier 3 Michigan Standard Deduction is reduced by personal and stillbirth exemptions claimed on the MI-1040, taxable Social Security benefits, military compensation (including retirement benefits), Michigan National Guard retirement benefits and railroad retirement benefits included in AGI.

Calculation:

> $40,000 (Tier 3 Michigan Standard Deduction for a joint return) - $10,800 exemption allowance - $9,200 Michigan National Guard retirement = $20,000 Tier 3 Standard

Deduction.

Worksheet 3.3 determines that Trevor and Marilea, if claiming a retirement subtraction, would complete Section D of Form 4884 and be allowed a subtraction of $16,700 ($7,500 Trevor's retirement + $9,200 (Marilea's retirement).

They receive a greater benefit if they claim a Tier 3 Michigan Standard Deduction in the amount of $20,000 instead of claiming a retirement subtraction on Form 4884 in the amount of $16,700.

Calculation:

$38,200 AGI – $20,000 Schedule 1 subtraction = $18,200 income subject to tax
$18,200 – $10,800 exemption allowance = $7,400 taxable income
$7,400 x 4.05% = $300 tax
$300 tax liability – $500 Michigan withholding = $200 refund

TEST

The following pages are a test that may be used by coordinators and instructors to give their volunteers extra training and/or evaluate their volunteers' readiness to prepare Michigan tax returns.

Note: Treasury does not require that a volunteer pass this test prior to preparing tax returns. For answers to this test, coordinators or instructors may contact the Volunteer Helpline at 1-888-860-8389, or for any technical questions, call (517) 636-4230. Please select option 1 at the voice menu.

TOTAL HOUSEHOLD RESOURCES EXERCISE

Which of the following must be included in Total Household Resources?
Yes (Y) or No (N)

A. Gambling winnings in another state in excess of $300 ______
B. Proceeds received from a reverse mortgage ______
C. Social Security received for a minor child ______
D. Nontaxable gain on the sale of a residence ______
E. Original contributions shown on a 1099R ______
F. Workers' compensation ______
G. Chore services received ______
H. Relief in kind (nongovernmental under $300) ______
I. Alimony received ______
J. Child support received ______
K. Winnings from a casino in Michigan in excess of $300 ______
L. FIP paid to grandparents for care of grandchildren ______
M. Cancellation of debt ______
N. Unemployment compensation ______
O. Scholarships ______
P. Food stamps (Bridge card) ______
Q. Military pay ______
R. Life insurance proceeds from death of a spouse ______
S. Tax exempt Michigan municipal bond interest ______
T. Gross income of mother-in-law who lives rent free in taxpayer's home ______
U. State income tax refund received ______
V. Savings account withdrawals ______
W. Assistance received from daughter to pay rent or mortgage ______

Which of the following may be deducted from Total Household Resources? (Y or N)

A. Gambling losses ______
B. Medical insurance premiums paid by payroll deduction on wages ______
C. A net operating loss ______
D. Roth IRA contributions ______
E. Student loan interest (deducted in AGI) ______
F. Child support paid ______
G. Contributions to a Michigan public radio station ______
H. Moving expenses (nonmilitary) ______
I. A net loss on the sale of a personal residence ($3,000 or less) ______
J. Claim of right (deducted in AGI) ______
K. Self-employment tax deduction ______

MULTIPLE CHOICE

(Choose the correct answer from the following, circling the corresponding letter)

1. The maximum homestead property tax credit for 2023 is?

   A. $1,700 B. $2,000 C. $1,200 D. $1,600

2. After April 15, 2023, which is the oldest year property tax return a taxpayer may still file for a refund?

   A. 2019 B. 2020 C. 2017 D. 2018

3. How long during the year must a taxpayer be a resident of Michigan to claim a homestead credit?

   A. Full year B. 6 months C. 6 weeks D. No requirement

4. Which of the following may not be claimed on the Form MI-1040CR?

   A. Village taxes
   B. Collection fees up to 1 percent of property taxes
   C. Property taxes from prior years

5. How much is the homestead property tax credit for a Senior Citizen who has total household resources of $12,500 and pays annual rent of $5,400? (Assume the property is taxable and the rent does not include meals or other services).

   A. $385 B. $842 C. $867 D. $400

6. A single taxpayer who lives in a nursing home and still owns a vacant family home may claim which of the following on his or her Form MI-1040CR?

   A. Nursing home taxes only
   B. Family home taxes only
   C. Both the taxes on the nursing home and the family home
   D. The larger of the taxes on the nursing home or the family home

7. If a taxpayer moves into a new home on August 1, 2023, and is billed $500 for summer taxes on the home sold and $1,000 in winter taxes on the home purchased, how much of the property taxes may the taxpayer claim for credit? (Assume the winter taxes on the home sold were $1,500 and the summer taxes on the home purchased were $400.)

   A. $1,700 B $1,652 C. $1,748 D. $1,500

8. Which of the following is not included in total household resources?

   A. Social Security
   B. Unemployment
   C. Food stamps (Bridge card)
   D. Disability income

9. For tax year 2023, Linda Little, who was born before 1946, filed a federal return as a single individual. Included in her AGI was $39,000 received from the State of Michigan retirement plan and $15,000 received from a GM retirement plan. What is Linda's total allowable pension subtraction?

   A. $45,120 B. $61,518 C. $54,000 D. 38,000

10. Which of the following may not be subtracted on the Form MI-1040?

    A. U.S. Treasury Bond interest
    B. Business income earned in another state
    C. Military pay
    D. Charitable contributions

11. Jim Dandy, a single individual age 77, received a pension of $8,500 from the city of Gladwin during the year, interest income of $2,850, and dividend income of $1,200. What is his Senior Citizen Interest, Dividend, and Capital Gain deduction?

    A. $4,450 B. $12,697 C. $4,197 D. $4,050

TEST PROBLEM

Jon and Andrew Adams are brothers who live together in the house they inherited from their father at 31506 Greenway, Swartz Creek, Michigan 48345. Jon and Andrew split all expenses related to their home and its upkeep, evenly. Jon's SSN is 202-00-2222 and Andrew's is 303-00-3333. Jon's age is 83 and Andrew's age is 85, and they do not qualify for any special exemptions. Their incomes are as follows:

	Jon	Andrew
Social Security	$4,850	$7,550
Pension:		
Ford Motor	2,900	
IRA Distribution		5,250
Interest and Dividends	250	1,585

Assume for this exercise that the social security income was not included in their federal AGI. The property taxes on their house are $2,300 and the taxable value is $60,000. The home is heated with gas, and they were billed $1,770 for the year ending October 31, 2023. The heat is in Andrew's name, but Jon pays half of the heat bill and kept proof of these payments.

Prepare the necessary Michigan tax forms for the two brothers.